

STATE OF MISSOURI



DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

P.O. Box 690, Jefferson City, Mo. 65102-0690

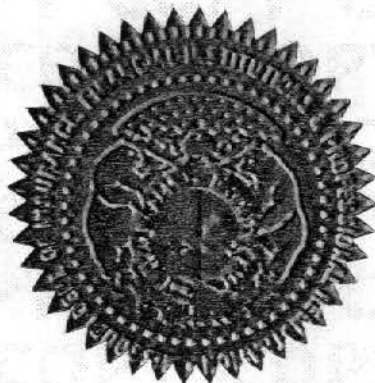
RE: Examination Report of Farmers Mutual Insurance Company of Adair County as of
December 31, 2008

ORDER

After full consideration and review of the report of the financial examination of Farmers Mutual Insurance Company of Adair County for the period ended December 31, 2008, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 380.061, RSMo [if Part I], or 380.491, RSMo [if Part II], adopt such report. After my consideration and review of such report are incorporated by reference and deemed to be my findings and conclusions to accompany this order.

Based on such findings and conclusions, I hereby ORDER Farmers Mutual Insurance Company of Adair County, to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed in such report: (1) implement, and verify compliance with, each item mentioned in the General Comments and/or Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions; and (3) submit a signed copy of the minutes of the meeting which reflect a corporate resolution to the effect the Examination Report has been reviewed and accepted.

So ordered, signed and official seal affixed this November 4, 2009.

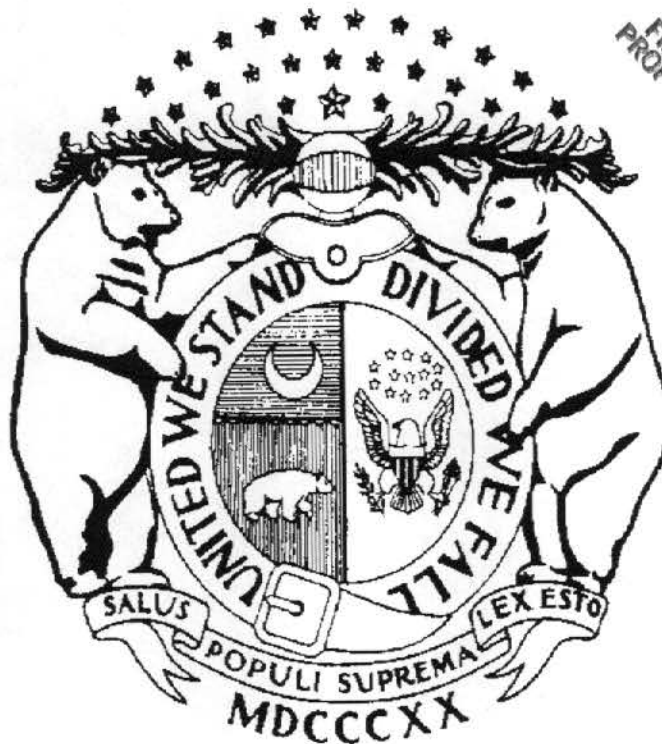


John M. Huff, Director
Department of Insurance, Financial Institutions
and Professional Registration

REPORT OF THE
FINANCIAL EXAMINATION OF

Farmers Mutual Insurance Company of Adair County

AS OF
DECEMBER 31, 2008



FILED
NOV 04 2009
DIRECTOR OF INSURANCE
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION

STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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June 15, 2009
Kirksville, Missouri

Honorable John M. Huff, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65101

Sir:

In accordance with your examination warrant, a full-scope examination has been made of the records, affairs and financial condition of

Farmers Mutual Insurance Company of Adair County

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 1312 North Baltimore, Kirksville, Missouri 63501, telephone number (660) 665-6205. This examination began on May 11, 2009, and concluded on the above date, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 2003, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2004, through December 31, 2008, and was conducted by examiners from the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP).

This examination also included material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the DIFP and statutes of the State of Missouri prevailed.

Comments-Previous Examination Report

The comments, recommendations, and notes of the previous examination report dated December 31, 2003, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

Notes to the Financial Statements

Comment: Since the Company converted to a non-assessable mutual during the examination period, the Company is required to report the portion of premiums unearned at year-end as a liability on the Annual Statement. The Company failed to report an unearned premium reserve on the 2003 Annual Statement. It was recommended the Company report an unearned premium reserve on future Annual Statements.

Company Response: The unearned premium will be included in future annual reports.

Current Findings: The Company reported an unearned premium reserve during the examination period, as recommended.

HISTORY

General

The Company was originally organized on May 8, 1894, and incorporated on October 7, 1939, as Farmers Mutual Insurance Company of Adair County. The Company operates under Sections 380.201 through 380.611 RSMo (Extended Missouri Mutual Companies).

Management

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the second Wednesday in February at the home office of the Company or at such other place and time as may be designated by the Board of Directors. Special meetings of the members may be called at any time, and shall be called upon petition of one-fourth of the members. Eight members shall constitute a quorum at any membership meeting. Proxy voting is permitted.

The management of the Company is vested in the Board of Directors, who are elected from the general membership. The Board of Directors consists of seven members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets at least annually, and the directors are compensated \$50 per each meeting attended.

Members serving on the Board of Directors as of December 31, 2008, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
Jeff Brawner Kirksville, Missouri	Agent/Farmer	2008-2011
Jim Forquer Kirksville, Missouri	Adjustor	2006-2009
Gary Ledford Kirksville, Missouri	Contractor	2007-2010
Donna Lou Broadwell Novinger, Missouri	Teacher	2006-2009
Larry L. Smith Novinger, Missouri	Retired/Farmer	2007-2010
Duane Turner LaPlata, Missouri	Retired	2008-2011
Bill Wayman Kirksville, Missouri	Agent/Realtor	2007-2010

The Board of Directors appoints for a term of one year, the officers of the Company. The officers of the Company serving at December 31, 2008, were as follows:

Jeff Brawner	President
Duane Turner	Vice-President
Ann Walker	Secretary/Treasurer

Conflict of Interest

The Company has written conflict of interest procedures for the disclosure of material conflicts of interest or affiliations by its directors and officers. The Company has its directors and officers sign conflict of interest statements on an annual basis, and no potential material conflicts were disclosed.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. The Articles were amended in October 2007 to change the number of directors from nine to seven and to change the annual meeting date to the second Wednesday in February.

The minutes of the membership and the Board of Directors' meetings were reviewed for the period under examination. The board minutes appear to properly reflect corporate transactions and events.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a fidelity bond providing a limit of liability of \$50,000. The fidelity bond coverage of the Company meets the minimum coverage suggested in the guidelines promulgated by the NAIC.

The Company carries directors' and officers' liability coverage with per claim and aggregate limits of \$750,000.

The Company purchases errors and omissions insurance for its four exclusive agents with limits of \$1,000,000. The Company also utilizes an independent agent who purchases errors and omissions coverage with a limit of \$1,000,000.

Other insurance coverages carried by the Company include property insurance on the home office and contents and commercial liability insurance.

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has two full-time employees and one part-time employee. The Company provides life and health insurance, as well as paid vacation and sick leave for the employees. The Company also makes an annual contribution to each employee's individual retirement account.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Company is licensed by the DIFP as an Extended Missouri Mutual Insurance Company operating under Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Insurance Companies). The Company is authorized to write fire, wind and liability insurance in all

counties in the State of Missouri. The Company writes fire, wind and liability coverages.

The Company's policies are sold by four exclusive agents and one independent agent, who receive an 18% commission.

Policy Forms and Underwriting Practices

The Company utilizes AAIS policy forms provided by the Missouri Association of Mutual Insurance Companies. The policies are continuous. A part-time property inspector is employed by the Company. Adjustment services are performed by a part-time employee and by independent adjusters. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Gross Premiums</u>	<u>Gross Losses</u>	<u>Investment Income</u>	<u>Underwriting Income</u>	<u>Net Income</u>
2008	\$1,485,591	\$297,670	\$772,799	\$222,373	\$52,732	\$ 1,190	\$ 46,711
2007	1,405,534	264,324	749,832	363,417	58,909	(35,977)	8,027
2006	1,375,696	242,513	710,487	294,664	51,031	(67,493)	(12,302)
2005	1,389,690	244,192	691,304	186,613	39,768	13,865	55,212
2004	1,314,673	224,387	621,950	132,251	30,735	39,159	65,725

At year-end 2008, 1,339 policies were in force.

REINSURANCE

General

The Company's premium and reinsurance activity on a direct-written, assumed and ceded basis for the period under examination is shown below:

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Direct	\$ 621,950	\$ 691,304	\$ 710,487	\$ 749,832	\$772,799
Assumed	0	0	0	0	0
Ceded	<u>(188,507)</u>	<u>(235,955)</u>	<u>(257,926)</u>	<u>(272,102)</u>	<u>(243,986)</u>
Net	<u>\$ 433,443</u>	<u>\$ 455,349</u>	<u>\$ 452,561</u>	<u>\$ 477,730</u>	<u>\$ 528,813</u>

Assumed

The Company does not assume any reinsurance.

Ceded

The Company has all of its reinsurance through Wisconsin Reinsurance Corporation (the reinsurer) under a single reinsurance contract for fire, wind and liability risks. The per-risk excess of loss section of the contract pertains to fire and wind risks and consists of two layers. The Company retains \$50,000 per risk under the first layer and \$200,000 per risk under the second layer. The reinsurer's limits are \$150,000 under the first layer and \$200,000 under the second layer.

The catastrophe excess of loss section of the contract pertains to fire and wind risks and consists of two layers. The Company's aggregate net retention, or attachment point, for the first layer is 70% of net written premium. The reinsurer is liable for 100% of losses in excess of the attachment point and has a limit of liability of 55% of net written premium. The attachment point for the second layer is 125% of net written premiums. The reinsurer is liable for 100% of losses in excess of the attachment point with no limit of liability.

The contract also has a quota share section for liability risks. The Company cedes 100% of the liability risks and premium to the reinsurer and receives a 25% ceding commission.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that any assuming reinsurer should fail to perform its obligations under its reinsurance agreement with the Company.

ACCOUNTS AND RECORDS

The accounting records are maintained by the Company on an accrual basis. The Company's accountant, Van de Ven, LLC, performs an annual review of the Company's financial statements, and prepares the Company's Annual Statement and federal income tax return.

Effective June 30, 2009, 20 CSR 200.12.020 will require that no more than 5% of surplus be invested in any one mutual fund and no more than 10% of surplus be invested in mutual funds in total. The Company currently exceeds both of these limitations. The Company is directed to adjust its investment mix to comply with this regulation or to request approval from the DIFP to exceed investment limitations.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2008, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the Annual Statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the Financial Statements. (The failure of any column of numbers to add to its respective total is due to rounding or truncation.)

There may have been differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial, concerning their effect on the financial statements. Therefore, they were communicated to the Company and noted in the workpapers for each individual Annual Statement item.

ANALYSIS OF ASSETS
December 31, 2008

Bonds (Note 1)	\$ 344,323
Stocks (Note 1)	215,281
Real Estate	139,263
Cash on Deposit	778,937
Computer Equipment	107
Federal Income Tax Recoverable	888
Interest Due and Accrued	4,313
Prepaid Insurance	2,479

Total Assets	\$1,485,591
	=====

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2008

Losses Unpaid	\$ 30,000
Ceded Reinsurance Premium Payable	22,125
Unearned Premium	243,070
Payroll Tax Payable	2,475

Total Liabilities	\$ 297,670

Guaranty Fund	\$ 150,000
Other Surplus	1,037,921

Total Surplus	1,187,921

Total Liabilities and Surplus	\$1,485,591
	=====

STATEMENT OF INCOME
For the Year Ending December 31, 2008

Net Premiums Earned	\$ 514,392
Other Insurance Income	39,633
Net Losses & Loss Adjustment Expenses Incurred	(243,331)
Other Underwriting Expenses Incurred	(309,504)

Net Underwriting Income (Loss)	\$ 1,190

Investment Income	\$ 52,732
Other Income	61

Gross Profit (Loss)	\$ 53,983
Federal Income Tax	(7,272)

Net Income (Loss)	\$ 46,711
	=====

CAPITAL AND SURPLUS ACCOUNT
December 31, 2008

Policyholders' Surplus, December 31, 2007	\$1,141,210
Net Income (Loss)	46,711

Policyholders' Surplus, December 31, 2008	\$1,187,921
	=====

NOTES TO THE FINANCIAL STATEMENTS

Note 1 – Bonds, Stocks

The Company incorrectly included three mutual funds in the Bonds account, rather than in the Stocks account. The total of the funds was \$215,281. An examination change was made to reclassify the value of the funds from Bonds to Stocks. The adjustment resulted in a decrease in the Bonds account by \$215,281, with a corresponding increase in the Stocks account by \$215,281. The Company should include mutual fund balances in the Stocks account on future Annual Statements.

EXAMINATION CHANGES

As disclosed in Note 1 above, the only examination change was related to the reclassification of balances from the Bonds account to the Stocks and resulted in no change to total policyholder surplus.

GENERAL COMMENTS AND RECOMMENDATIONS

Accounts and Records (Page 7)

Effective June 30, 2009, 20 CSR 200.12.020 will require that no more than 5% of surplus be invested in any one mutual fund and no more than 10% of surplus be invested in mutual funds in total. The Company currently exceeds both of these limitations. The Company is directed to adjust its investment mix to comply with this regulation or to request approval from the DIFP to exceed the investment limitations.

Notes to the Financial Statements (Page 10)

The Company should include mutual funds in the Stock account on future Annual Statements.

SUBSEQUENT EVENTS

None.

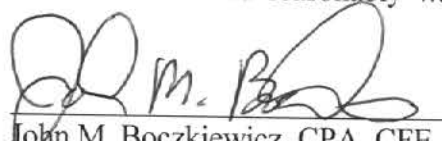
ACKNOWLEDGMENT

The assistance and cooperation extended by the employees of Farmers Mutual Insurance Company of Adair County during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
) ss
County of Cole)

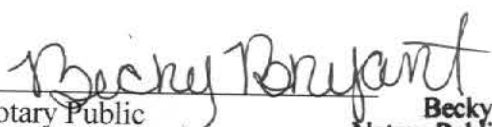
I, John M. Boczkiewicz on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only the facts appearing upon the books, records or other documents of the company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.


John M. Boczkiewicz, CPA, CFE
Financial Examiner
Missouri DIFP

Sworn to and subscribed before me this 1 day of July, 2009.

My commission expires:

Jan 21, 2012



Notary Public

Becky Bryant
Notary Public-Notary Seal
STATE OF MISSOURI
St. Louis County

My Commission Expires: Jan. 21, 2012
Commission # 08475706

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.


Mark Nance, CPA, CFE
Audit Manager – Kansas City
Missouri DIFP

**FARMERS MUTUAL INSURANCE COMPANY
OF ADAIR COUNTY
1312 N. BALITMORE
KIRKVILLE, MO 63501
660-665-6205**

October 29, 2009

**Department of Insurance
Financial Institutions and Professional Registration
301 West High Street, Rom 530
PO Box 690
Jefferson City, MO 65102-0690**

Att: Tammy Rodieck, Exam Coordinator

This is in response to the letter we received October 21, 2009 regarding Examination Report for year ending December 31, 2008.

(Accounts and Records - Page 7)

The Company will adjust their investment mix to comply with the regulation CSR200.12.020 that went into effect as of June 30, 2009. The Company will follow the procedure of requesting permission from the DIFP in the event of any investments that would exceed these investment limitations.

(Notes to Financial Statement - Page 10)

This Company will reclassify those investments in the mutual bond funds as stocks on future annual statements and will at that point recognize any adjustment to market on those accounts.

Sincerely:



**Ann Walker
Secretary**